SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2001

102-04368/

SASKENERGY INCORPORATED AND SUBSIDIARIES
FINANCIAL STATEMENTS
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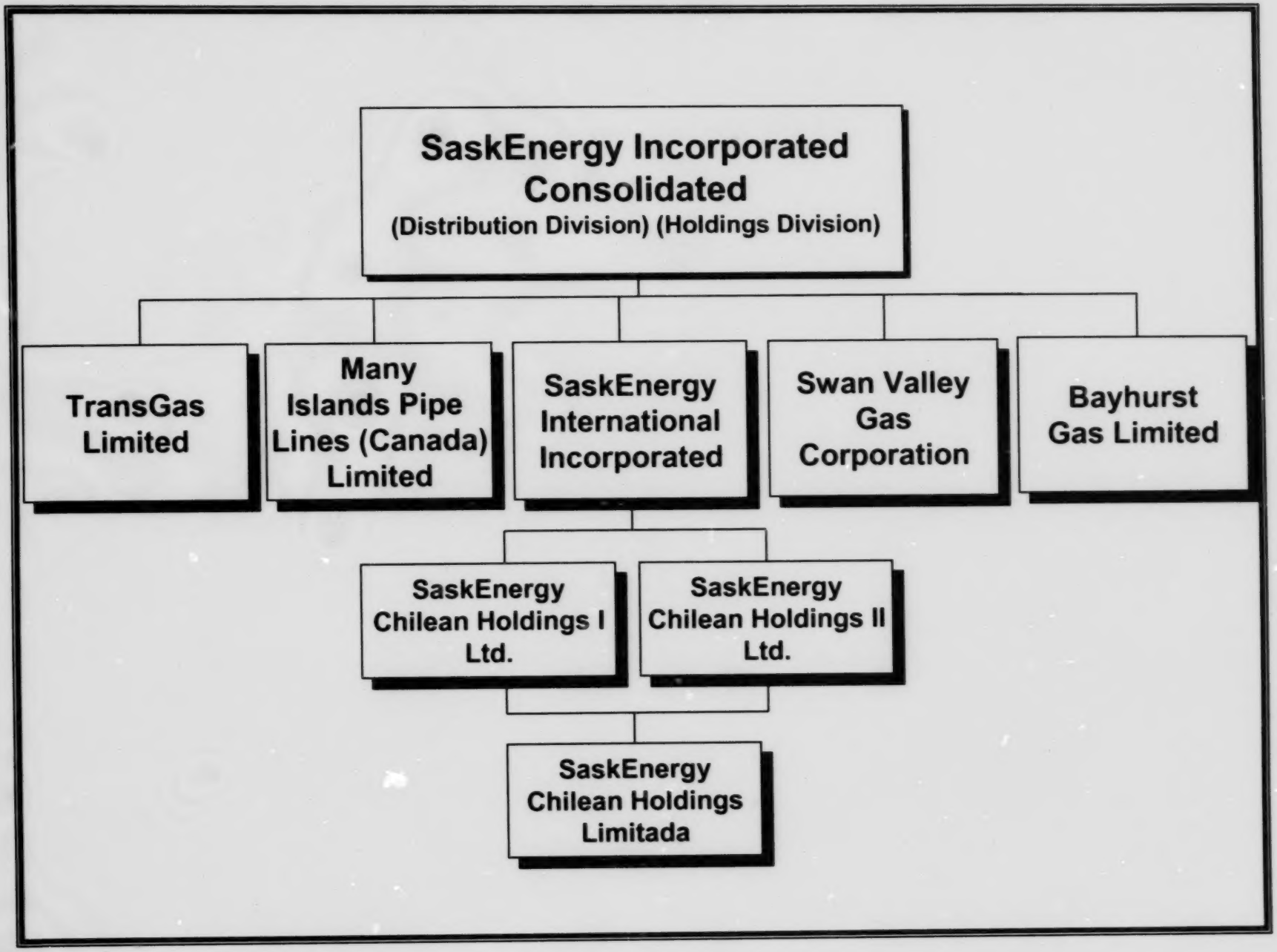
SaskEnergy Incorporated
Consolidated
(Distribution Division) (Holdings Division)
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Many Islands Pipe Lines (Canada) Limited
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SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Chilean Holdings Limitada

SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2001 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ -	$ 1,176
Accounts receivable		145,711	151,918
Natural gas in storage	3	97,800	37,431
Prepaid expenses		36,506	-
Gas cost variance account	4	-	26,068
Inventories of supplies		5,311	5,057
		285,328	221,650
CAPITAL ASSETS	5	1,018,687	1,010,476
NATURAL GAS IN STORAGE	3	30,590	32,249
INVESTMENT AND OTHER ASSETS	6	26,797	15,333
TOTAL ASSETS		$ 1,361,402	$ 1,279,708
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 678	$ -
Short-term debt	7	218,192	-
Accounts payable		129,271	152,213
Dividend payable		-	7,410
Current portion of long-term debt	7	-	50,000
		348,141	209,623
CUSTOMER CAPITAL CONTRIBUTIONS	8	97,190	94,716
LONG-TERM DEBT	7	623,571	667,492
TOTAL LIABILITIES		1,068,902	971,831
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	9	71,531	71,531
Retained earnings	4	220,969	236,346
TOTAL EQUITY		292,500	307,877
		$ 1,361,402	$ 1,279,708
COMMITMENTS AND CONTINGENCIES	6,10		

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

Deloitte & Touche

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
REVENUE			
Delivery revenue		$ 155,118	$ 166,488
Transportation and storage revenue		69,663	73,507
Net sales from gas marketing	12	38,531	17,509
Revenue collected for municipalities	11	22,152	18,125
Other		6,109	4,255
		291,573	279,884
EXPENSES			
Operating and maintenance		109,592	99,581
Interest	7	53,316	66,630
Amortization of capital assets		49,702	46,914
Payments to municipalities	11	22,152	18,125
Saskatchewan taxes and royalties	13	10,848	10,057
Total expenses		245,610	241,307
Net earnings from operations before the following		45,963	38,577
Commodity revenue		310,507	238,000
Cost of gas sold	4	371,847	232,153
Net revenue (loss) from commodity sales		(61,340)	5,847
Net earnings (loss)		(15,377)	44,424
Retained earnings, beginning of year		236,346	216,322
Dividend		-	(24,400)
Retained earnings, end of year		$ 220,969	$ 236,346

(See accompanying notes)

Deloitte & Touche

SASKENERGY INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Net earnings (loss)		$ (15,377)	$ 44,424
Add (deduct) items not requiring an outlay of cash			
Amortization of capital assets		49,702	46,914
Amortization of customer capital contributions		(2,576)	(2,354)
Other non-cash items		921	2,456
		32,670	91,440
Net change in non-cash working capital related to operations	14	(87,796)	(1,105)
Cash provided by operating activities		(55,126)	90,335
INVESTING ACTIVITIES			
Additions to capital assets		(57,913)	(57,875)
Additions to investment and other assets		(12,385)	(9,753)
Customer capital contributions received		5,050	11,561
Decrease in natural gas in storage (non-current)		1,659	6,532
Cash used in investing activities		(63,589)	(49,535)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt		218,192	(38,800)
Proceeds from long-term debt		140,000	33,971
Repayment of long-term debt		(233,921)	(8,311)
Dividend paid		(7,410)	(24,464)
Cash used in financing activities		116,861	(37,604)
INCREASE (DECREASE) IN CASH during year		(1,854)	3,196
CASH POSITION (BANK INDEBTEDNESS), beginning of year		1,176	(2,020)
CASH POSITION (BANK INDEBTEDNESS), end of year		$ (678)	$ 1,176

Cash position consists of cash less bank indebtedness.
(See accompanying notes)

Deloitte & Touche

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**. SaskEnergy transports, stores and distributes natural gas in Saskatchewan.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., Swan Valley Gas Corporation, and TransGas Limited. In addition, the accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership. Separate audited financial statements are prepared for each of these entities.

b. Investments

Entities that the Corporation has the ability to significantly influence are accounted for using the equity method.

c. Natural gas in storage

Natural gas in storage (both current and non-current) is stated at cost. Natural gas removed from storage is accounted for on an average cost basis.

d. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

e. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other retirements of capital assets are recorded by reducing the asset account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 33.3

The royalty interest in certain natural gas wells is amortized on the unit of production method.

f. Future employee benefits

The cost of future benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are included in investment and other assets and are amortized on a straight-line basis over the average remaining service period of active employees.

g. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt in 2001. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

h. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

i. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Transportation and storage revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate

of transportation, storage revenue and related services rendered, but not billed, is included in revenue.

j. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

3. NATURAL GAS IN STORAGE

Natural gas in storage, classified as a current asset, has been purchased for the purpose of resale.

Natural gas in storage, classified as a non-current asset, is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

The Corporation has natural gas reserves that are fully amortized. A portion of these reserves were sold in 2001 and 2000.

4. GAS COST VARIANCE ACCOUNT

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of CIC, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates. SaskEnergy is allowed to apply for a rate change if the balance in the GCVA (surplus or deficit) exceeds $20,000 thousand.

Accordingly, the December 31, 2000 balance in the GCVA of $26,068 thousand owing to SaskEnergy by customers was recorded as a current asset.

As at May 31, 2001 the balance in the GCVA increased to $75,846 thousand. Effective May 31, 2001, CIC directed SaskEnergy to absorb the accumulated balance in the GCVA. For accounting purposes this under recovery has been included in the cost of gas sold.

As noted above, prior to June 1, 2001, balances in the GCVA were recorded as either an asset or liability. However, as a result of the above change in circumstances, commencing June 1, 2001 GCVA balances are included in the cost of gas sold.

The balance of $9,519 thousand in the GCVA as at December 31, 2001 (also included in the cost of gas sold) has been approved by CIC to be refunded to customers in 2002.

The GCVA, as at December 31, includes natural gas costs to be refunded to or recovered from customers as follows:

	2001	2000
	(thousands)	
Commodity sales revenue	$(310,435)	$(238,000)
Cost of gas before GCVA	349,650	257,907
Interest on the GCVA	1,044	136
Balance, beginning of year	26,068	7,542
	66,327	27,585
Under-recovery	(75,846)	(1,517)
Balance, end of year	$ (9,519)	$ 26,068

The $9,519 thousand is included in the December 31, 2001 retained earnings balance of $220,969 thousand.

5. CAPITAL ASSETS

	2001			2000		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 555,823	$132,576	$ 423,247	$ 547,551	$117,172	$ 430,379
Distribution	545,662	126,205	419,457	520,306	111,702	408,604
Gathering, treatment and compression	154,630	49,323	105,307	149,820	43,089	106,731
Vehicles, equipment and other	122,392	56,535	65,857	110,820	49,724	61,096
Royalty interest	6,831	6,805	26	6,831	5,905	926
Construction in progress	4,793	-	4,793	2,740	-	2,740
	$1,390,131	$371,444	$1,018,687	$1,338,068	$327,592	$1,010,476

The composite amortization rate was 3.64 per cent during 2001 (3.57 per cent during 2000).

6. INVESTMENT AND OTHER ASSETS

a. Long-term investment in Gas Sur S.A.

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity ownership in Gas Sur S.A. to 30 per cent.

In 2000, the 15 per cent equity interest in Gas Sur S.A. was recorded by the cost basis of accounting. On December 14, 2001, the equity ownership in Gas Sur S.A. was increased to 30 per cent and as a result, the investment was accounted for on the equity basis of accounting from that date.

The cash invested in Gas Sur S.A. shares is $12,602 thousand. The Corporation's share of Gas Sur S.A.'s net income and any foreign currency translation adjustment between December 14, 2001 and December 31, 2001 are not material and have not been recorded in these financial statements.

The cost of the investment exceeded the Corporation's share of the underlying net book value of Gas Sur S.A. by approximately $5.3 million and is not being amortized.

The Corporation has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholder Agreement. The guarantee is expressly limited to $5,000 thousand USD.

b. Integrated Gas Services of Mexico, S. de R.L. de C.V. (IGASAMEX)

Order-in-Council 879/2001 dated December 4, 2001 authorizes the Corporation to purchase an equity interest in Igasamex, a Mexican natural gas midstream company. The Order-in-Council limits the investment to a maximum of $12,000 thousand USD. As at December 31, 2001, the Corporation had not completed negotiations for the purchase of the equity interest.

c. Deferred charges

Deferred charges include the following:

	2001	2000
	(thousands)	
Deferred financing costs	$ 8,874	$ 2,112
Unamortized past service costs	5,091	5,728
	$ 13,965	$ 7,840

7. LONG-TERM DEBT

Years to Maturity	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 198,249	8.8	$ 404,586	11.1
6 - 10	241,966	7.5	228,563	8.1
16 - 30	193,971	7.3	133,971	7.7
	634,186		767,120	
Less sinking fund equity	15,431		54,444	
Less due within one year	-		50,000	
Due to Province of Saskatchewan	618,755		662,676	
Other	4,816	13.5	4,816	13.5
Total long-term debt	$ 623,571		$ 667,492	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.19 per cent for 2001 (6.79 per cent for 2000).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Short-term debt

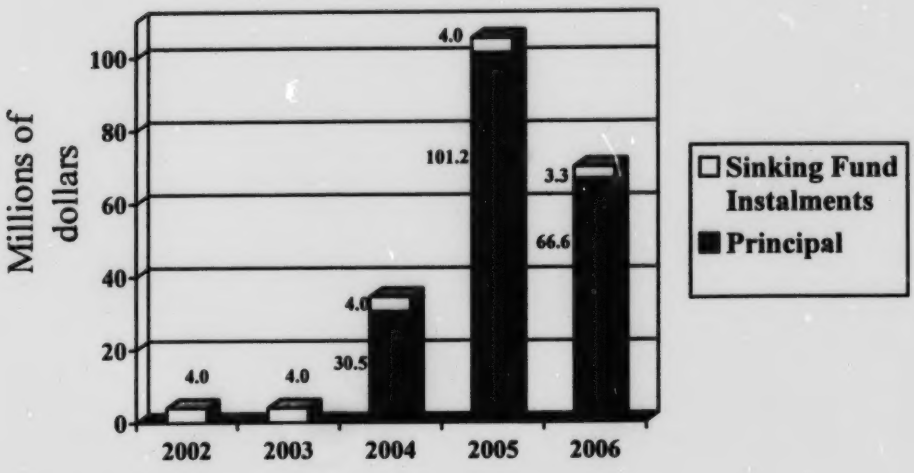
During 2001, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 4.0 per cent.

Included in short-term debt at December 31, 2001 is an amount of $218,192 thousand (2000 - nil) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.0 per cent.

d. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

Principal Repayments



e. Interest expense

Interest expense was as follows:

	2001	2000
	(thousands)	
Interest on long-term debt	$ 54,234	$ 73,880
Interest expense on short-term debt	7,693	-
Interest on cost of gas sold	(5,002)	(2,548)
Sinking fund earnings	(3,307)	(3,441)
Interest capitalized	(271)	(239)
Interest income	(31)	(1,022)
	$ 53,316	$ 66,630

Cash interest paid during 2001 on long-term debt was $60,816 thousand (2000 - $73,103).

8. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer specific facilities in accordance with established business policies.

	2001	2000
	(thousands)	
Balance, beginning of year	$ 94,716	$ 85,509
Contributions received	5,050	11,561
Contributions amortized	(2,576)	(2,354)
Balance, end of year	$ 97,190	$ 94,716

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from Crown Investments Corporation of Saskatchewan (CIC) to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. COMMITMENTS

➢ FINANCIAL INSTRUMENTS

The Corporation uses financial instruments in its hedging activities. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2001, the Corporation used financial instruments to hedge natural gas prices, interest rates, and foreign exchange rates.

a. Gas price hedging transactions

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange.

b. Interest rate and foreign exchange hedging transactions

The Corporation also uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

c. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 639,002	$ 727,009	$771,936	$825,877
Sinking fund equity	15,431	15,386	54,444	56,402
Natural gas price hedges owed to (by) SaskEnergy:				
- swaps	393	(35,669)	-	89,385
- options	36,506	(44,711)	(7)	39,099
Foreign exchange owed to (by) SaskEnergy	(238)	1,943	-	-
Interest rate hedges owed to (by) SaskEnergy:				
- forward rate agreements	-	(182)	-	-
- delayed swaps	-	-	-	(8,200)

The Corporation entered into a number of forward start interest rate swaps to hedge its exposure to interest rate repricing on debt maturing between 2001 and 2003. The Corporation terminated these forward start interest rate swaps during the year.

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2001.

iii. Natural gas price swaps - The relevant index price in effect on December 31, 2001.

iv. Natural gas price options - The relevant index price in effect on December 31, 2001.

v. Natural gas futures contracts - The closing quotation from the New York Mercantile Exchange on December 31, 2001.

vi. Foreign exchange - The Bank of Canada exchange rate on December 31, 2001.

vii. Interest rate hedges – Closing quotations from the counterparty as to the amount to settle the contract on December 31, 2001.

The carrying values of other financial instruments (accounts receivable, accounts payable and short-term debt) approximates fair value.

d. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To mitigate its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

e. Forward sales agreement

The Corporation is planning to sell natural gas from non-operational storage facilities. The Corporation has entered into forward sales agreements over a two-year period totaling $25,520 thousand.

➢ **LEASES**

The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The annual base lease payments are as follows: (thousands)

2002	2003	2004	2005	2006	Thereafter	Total
$362	$371	$380	$389	$399	$1,918	$3,819

11. REVENUE COLLECTED FOR AND PAID TO MUNCIPALITIES

a. Natural gas distribution

In accordance with regulations under **The SaskEnergy Act**, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the Statement of Earnings.

b. Natural gas transmission

In accordance with regulations under **The SaskEnergy Act**, TransGas is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities.

12. NET SALES FROM GAS MARKETING

Net sales from gas marketing includes the following:

	2001	2000
	(thousands)	
Competitive gas sales	$ 497,838	$ 227,421
Cost of gas	459,307	209,912
Margin	$ 38,531	$ 17,509

13. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalties include the following:

	2001	2000
	(thousands)	
Corporate capital tax	$ 5,154	$ 4,541
Royalties	4,700	4,700
Mitigation payments and property taxes	994	816
	$ 10,848	$ 10,057

The above amounts do not include Saskatchewan Education and Health Tax payments.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Natural gas in storage - current	$ (60,369)	$ 12,253
Gas cost variance account	26,068	(18,526)
Prepaid expenses	(36,506)	-
Accounts payable	(22,942)	77,284
Inventories of supplies	(254)	1,346
Accounts receivable	6,207	(73,462)
	$ (87,796)	$ (1,105)

15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2001	2000
	(thousands)	
Operating expenses	$ 25,791	$ 24,662
Revenue	15,568	26,095
Customer capital contributions	2,650	2,625
Accounts payable	979	973
Accounts receivable	914	1,882

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Province of Saskatchewan's Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the corporation contributed $2,525 thousand (2000 - $2,334 thousand) on behalf of employees for current services.

17. SEGMENTED INFORMATION

SaskEnergy operates predominantly in the following two industry segments:

Distribution (Distribution Division of SaskEnergy) provides natural gas distribution to the Province of Saskatchewan.

Transportation (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. This company also provides natural gas storage services.

A) Statement of Earnings (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany Eliminations		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
REVENUE										
Delivery revenue	158.1	170.5	-	-	0.6	-	(3.6)	(4.0)	155.1	166.5
Transportation and storage	-	-	126.0	133.4	3.6	4.2	(59.9)	(64.1)	69.7	73.5
Net sales from gas marketing	-	-	34.9	15.4	-	-	3.6	2.1	38.5	17.5
Revenue collected for municipalities	16.3	13.3	5.8	4.8	-	-	-	-	22.1	18.1
Other	4.3	3.4	-	-	6.1	4.3	(4.3)	(3.5)	6.1	4.2
Revenue	178.7	187.2	166.7	153.6	10.3	8.5	(64.2)	(69.5)	291.5	279.8
EXPENSES										
Operating and maintenance	116.8	114.4	49.8	45.7	2.6	2.0	(59.6)	(62.5)	109.6	99.6
Interest	17.6	26.4	29.6	39.2	6.0	1.0	-	-	53.2	66.6
Amortization of capital assets	23.6	22.7	24.6	22.9	1.7	1.4	(0.1)	(0.1)	49.8	46.9
Payments to municipalities	16.3	13.3	5.8	4.8	-	-	-	-	22.1	18.1
Saskatchewan taxes and royalties	3.0	2.4	7.2	7.2	0.6	0.5	-	-	10.8	10.1
Expenses	177.3	179.2	117.0	119.8	10.9	4.9	(59.7)	(62.6)	245.5	241.3
Net earnings from operations before the following	1.4	8.0	49.7	33.8	(0.6)	3.6	(4.5)	(6.9)	46.0	38.5
Commodity revenue	310.4	238.0	-	-	0.1	-	-	-	310.5	238.0
Cost of gas sold	376.8	239.5	-	-	0.1	-	(5.0)	(7.4)	371.9	232.1
Net revenue (loss) from commodity sales	(66.4)	(1.5)	-	-	-	-	5.0	7.4	(61.4)	5.9
Net earnings (loss)	(65.0)	6.5	49.7	33.8	(0.6)	3.6	0.5	0.5	(15.4)	44.4

B) Statement of Financial Position (millions of dollars)

	Distribution		Transportation		Other[1]		Intercompany Eliminations		Total	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
Current assets	**280.5**	211.1	**57.3**	68.8	**127.0**	32.3	**(179.5)**	(90.5)	**285.3**	221.7
Capital assets & natural gas in storage	**461.4**	450.0	**564.6**	572.1	**26.5**	25.9	**(3.2)**	(5.3)	**1,049.3**	1,042.7
Investment & other assets	**8.5**	5.4	**5.9**	2.4	**863.8**	789.9	**(851.4)**	(782.4)	**26.8**	15.3
Total Assets	**750.4**	666.5	**627.8**	643.3	**1,017.3**	848.1	**(1,034.1)**	(878.2)	**1,361.4**	1,279.7
Current liabilities	**216.7**	199.9	**65.6**	57.0	**244.2**	91.3	**(178.4)**	(138.7)	**348.1**	209.6
Customer capital contributions	**64.9**	63.4	**29.6**	29.7	**5.8**	4.9	**(3.1)**	(3.3)	**97.2**	94.7
Long-term debt	**269.7**	215.0	**340.4**	366.3	**632.3**	669.3	**(618.8)**	(583.0)	**623.6**	667.5
Total Liabilities	**551.3**	478.3	**435.6**	453.0	**882.3**	765.5	**(800.3)**	(725.0)	**1,068.9**	971.8
Total Equity	**199.1**	188.2	**192.2**	190.3	**135.0**	82.6	**(233.8)**	(153.2)	**292.5**	307.9

[1]The Other category includes subsidiaries, investments and divisions of the Corporation. A complete list of subsidiaries and investments is provided in Note 2.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were to third parties, that is, at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as they provide products and services requiring different business, technology and marketing strategies.

18. SASKATCHEWAN RATE REVIEW PANEL

During 2000, The Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public. SaskEnergy applied for both a commodity rate increase and decrease in 2001.

19. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation. The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte & Touche

Deloitte & Touche LLP
900-2103 11th Ave
Regina SK S4P 3Z8

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Deloitte
& Touche

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Distribution Division of SaskEnergy Incorporated as at December 31, 2001 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Distribution Division is a component of SaskEnergy Incorporated and has no separate legal status. Transactions with other divisions and affiliates of SaskEnergy Incorporated are described in note 3.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31
(thousands)

	Note	2001	2000
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 133,748	$ 137,104
Natural gas in storage		99,028	39,226
Prepaid expenses		36,506	-
Intercompany accounts receivable		6,382	3,981
Inventories of supplies		4,889	4,715
Gas cost variance account	4	-	26,068
		280,553	211,094
CAPITAL ASSETS	5	461,408	450,052
DEFERRED CHARGES	6	8,496	5,436
		$ 750,457	$ 666,582
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 99,684	$ 45,168
Accounts payable		103,664	120,445
Intercompany accounts payable		13,363	13,873
Notes payable due within one year		-	20,485
		216,711	199,971
CUSTOMER CAPITAL CONTRIBUTIONS	7	64,898	63,364
NOTES PAYABLE TO HOLDINGS DIVISION	8	269,684	214,990
TOTAL LIABILITIES		551,293	478,325
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	9	214,910	139,010
Retained earnings (deficit)	4	(15,746)	49,247
		199,164	188,257
		$ 750,457	$ 666,582
COMMITMENTS	10		

(See accompanying notes)

On behalf of the Board:

Director

Director

Deloitte & Touche

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2001	2000
REVENUE			
Delivery revenue		$ 158,138	$ 170,494
Revenue collected for municipalities	11	16,336	13,319
Other revenue	12	4,239	3,449
		178,713	187,262
EXPENSES			
Operating and maintenance		66,722	61,621
Transportation and storage		50,052	52,795
Amortization of capital assets		23,575	22,715
Interest	8	17,646	26,434
Payments to municipalities	11	16,336	13,319
Saskatchewan taxes	13	3,048	2,346
Total expenses		177,379	179,230
Net earnings from operations before the following		1,334	8,032
Commodity sales revenue		310,435	238,000
Cost of gas sold	4	376,762	239,517
Loss from commodity sales		(66,327)	(1,517)
Net earnings (loss)		(64,993)	6,515
Retained earnings, beginning of year		49,247	44,935
Dividend		-	(2,203)
Retained earnings (deficit), end of year		$ (15,746)	$ 49,247

(See accompanying notes)

Deloitte & Touche

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2001	2000
OPERATING ACTIVITIES			
Net earnings (loss)		$ (64,993)	$ 6,515
Add (deduct) items not requiring an outlay of cash			
Amortization of capital assets		23,575	22,715
Amortization of deferred charges		749	617
Amortization of customer capital contributions		(1,615)	(1,557)
		(42,284)	28,290
Net change in non-cash working capital related to operations	14	(86,750)	(3,372)
Cash provided by operating activities		(129,034)	24,918
INVESTING ACTIVITIES			
Net additions to capital assets		(34,931)	(35,147)
Increase in deferred charges		(3,809)	(4,524)
Increase in customer contributions		3,149	5,271
Cash used in investing activities		(35,591)	(34,400)
FINANCING ACTIVITIES			
Increase in equity advances from the Holdings Division	9	75,900	71,047
Increase (decrease) in bank indebtedness		54,516	(10,473)
Proceeds of notes payable to Holdings Division		55,989	27,981
Repayment of notes payable to Holdings Division		(21,780)	(76,870)
Dividend paid		-	(2,203)
Cash provided by financing activities		164,625	9,482
DECREASE (INCREASE) IN CASH, during year		-	-
CASH, beginning of year		-	-
CASH, end of year		$ -	$ -

(See accompanying notes)

Deloitte & Touche

SASKENERGY INCORPORATED

DISTRIBUTION DIVISION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

b. Natural gas in storage

Natural gas in storage is stated at cost. Natural gas removed from storage is accounted for on an average cost basis.

c. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other retirements of capital assets are recorded by reducing the asset account with the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	4.0 to 10.0
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 50.0
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services (rural)	2.5	Vehicles, tools and equipment	8.0 to 11.1
		Furniture and fixtures	4.0

d. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

f. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

g. Future employee benefits

The cost of future benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the average remaining service period of active employees.

h. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt in 2001. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. BASIS OF PRESENTATION

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division. The other division is referred to as the Holdings Division.

These financial statements are prepared primarily for management purposes. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

4. GAS COST VARIANCE ACCOUNT

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of CIC, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates. SaskEnergy is allowed to apply for a rate change if the balance in the GCVA (surplus or deficit) exceeds $20,000 thousand.

Accordingly, the December 31, 2000 balance in the GCVA of $ 26,068 thousand owing to SaskEnergy by customers was recorded as a current asset.

As at May 31, 2001 the balance in the GCVA increased to $75,846 thousand. Effective May 31, 2001, CIC directed SaskEnergy to absorb the accumulated balance in the GCVA. For accounting purposes this under recovery has been included in the cost of gas sold.

As noted above, prior to June 1, 2001, balances in the GCVA were recorded as either an asset or liability. However, as a result of the above change in circumstances, commencing June 1, 2001 GCVA balances are included in the cost of gas sold.

The balance of $9,519 thousand in the GCVA as at December 31, 2001 (also included in the cost of gas sold) has been approved by CIC to be refunded to customers in 2002.

The GCVA, as at December 31, includes natural gas costs to be refunded to or recovered from customers as follows:

	2001	2000
	(thousands)	
Commodity sales revenue	$(310,435)	$(238,000)
Cost of gas before GCVA	349,650	257,907
Interest on the GCVA	1,044	136
Balance, beginning of year	26,068	7,542
	66,327	27,585
Under-recovery	(75,846)	(1,517)
Balance, end of year	$ (9,519)	$ 26,068

The $9,519 thousand is included in the December 31, 2001 retained earnings balance of $(15,746) thousand.

5. CAPITAL ASSETS

	2001			2000		
			(thousands)			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	$462,767	$ 106,413	$ 356,354	$ 447,876	$ 94,428	$353,448
Regulator stations	49,416	10,641	38,775	43,417	9,193	34,224
Metering	30,923	9,791	21,132	29,662	8,684	20,978
Computer systems	27,412	15,788	11,624	25,718	13,157	12,561
Vehicles, equipment	21,515	10,588	10,927	20,298	9,349	10,949
Tools, buildings, and furniture	29,547	6,951	22,596	25,138	7,246	17,892
	$ 621,580	$ 160,172	$ 461,408	$ 592,109	$142,057	$450,052

The composite rate of amortization was 3.9 per cent during 2001 (3.9 per cent during 2000).

Included in distribution assets is an amount of $ 3,198 thousand (2000 - $3,296 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2001 was $98 thousand (2000- $98 thousand).

6. DEFERRED CHARGES

Deferred charges include the following:

	2001	2000
	(thousands)	
Deferred financing costs	$ 4,877	$ 1,365
Unamortized past service costs	3,619	4,071
	$ 8,496	$ 5,436

7. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer specific facilities in accordance with established business policies:

	2001	2000
	(thousands)	
Balance, beginning of year	$ 63,364	$ 59,650
Contributions received	3,149	5,271
Contributions amortized	(1,615)	(1,557)
Balance, end of year	$ 64,898	$ 63,364

8. NOTES PAYABLE TO HOLDINGS DIVISION

Years to Maturity	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Average Fixed Interest Rate (per cent)
1 - 5	$ 65,254	8.58	$ 43,696	11.3
6 - 10	98,825	7.53	140,868	7.3
11 - 30	108,971	6.33	52,982	6.2
	273,050		237,546	
Less sinking fund equity	(3,366)		(2,071)	
	269,684		235,475	
Less due within one year	-		(20,485)	
	$269,684		$214,990	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.19 per cent for 2001 (6.79 per cent for 2000).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2002	2003	2004	2005	2006
Principal	$ -	$ -	$12,479	$10,732	$42,043
Sinking fund instalments	1,640	1,640	1,640	1,640	1,640
Total	$ 1,640	$ 1,640	$14,119	$12,372	43,683

d. Interest expense

Interest expense was as follows:

	2001	2000
	(thousands)	
Interest on long-term debt	$ 19,341	$ 29,130
Interest on bank indebtedness	3,639	1,240
Interest income on short-term investments	(10)	(9)
Sinking fund earnings	(155)	(1,261)
Interest capitalized	(167)	(118)
Interest on cost of gas sold	(5,002)	(2,548)
	$ 17,646	$ 26,434

Cash interest paid during 2001 on long-term debt was $21,931 thousand (2000 - $29,718 thousand).

9. EQUITY ADVANCES

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

During 2001, the Holdings Division advanced equity of $75,900 thousand to the Distribution Division.

10. COMMITMENTS

a. Financial Instruments

The Corporation uses financial instruments in its hedging activities. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use financial instruments only to manage risks associated with transactions undertaken in the normal course of business. During 2001, the Corporation used financial instruments to hedge natural gas prices, interest rates, and foreign exchange rates.

i. Gas price hedging transactions

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange.

ii. Interest rate and foreign exchange hedging transactions

The Corporation also uses financial instruments to hedge the interest rate on anticipated borrowing requirements and the foreign exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

b. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 273,050	$ 296,926	$237,546	$255,047
Sinking fund equity	3,366	3,356	2,071	2,145
Natural gas price hedges owed to (by) SaskEnergy:				
- swaps	393	(38,532)	-	104,199
- options	36,506	(44,711)	(7)	39,099
Foreign exchange owed to (by) SaskEnergy	(238)	1,943	-	-

The fair values of the above instruments were based on the following:

i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2001.

iii. Natural gas price swaps - The relevant index price in effect on December 31, 2001.

iv. Natural gas price options - The relevant index price in effect on December 31, 2001.

v. Natural gas futures contracts - The closing quotation from the New York Mercantile Exchange on December 31, 2001.

vi. Foreign exchange - The Bank of Canada exchange rate on December 31, 2001.

The carrying values of other financial instruments (accounts receivable, accounts payable and short-term indebtedness) approximates fair value.

c. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To mitigate its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

11. REVENUE COLLECTED FOR AND PAID TO MUNICIPALITIES

In accordance with regulations under **The SaskEnergy Act**, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the Statement of Earnings.

12. OTHER REVENUE

Other revenue includes the following:

	2001	2000
	(thousands)	
Competitive gas sales	$498,129	$ 227,421
Cost of gas	497,675	227,689
Gas marketing margin	454	(268)
Customer connect and late payment fees	1,663	1,782
Amortization of customer capital contributions	1,615	1,557
Natural Choice Services	347	259
Miscellaneous	160	119
	$ 4,239	$ 3,449

13. SASKATCHEWAN TAXES

Saskatchewan taxes include the following:

	2001	2000
	(thousands)	
Corporate capital tax	$ 3,019	$ 2,341
Property taxes	29	5
	$ 3,048	$ 2,346

The above amounts do not include Saskatchewan Education and Health Tax payments.

14. CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	2001	2000
	(thousands)	
Gas cost variance account	$ 26,068	$ (18,526)
Accounts receivable / intercompany accounts receivable	955	(72,274)
Inventories of supplies	(174)	1,304
Accounts payable / intercompany accounts payable	(17,291)	73,425
Prepaid expenses	(36,506)	-
Natural gas in storage	(59,802)	12,699
	$ (86,750)	$ (3,372)

15. RELATED PARTY TRANSACTIONS

a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	2001	2000
	(thousands)	
Transportation and storage	$ 50,053	$ 52,795
Cost of gas sold	$ 41,821	$ 28,420
Interest expense	$ 19,172	$ 27,860
Delivery revenue	$ 7,393	$ 7,728
Other revenue	$ 3,183	$ 2,358

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2001	2000
	(thousands)	
Operating expenses	$ 16,701	$ 15,808
Revenue	11,850	8,880
Accounts receivable	1,065	778
Customer capital contributions	648	666
Accounts payable	607	593

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. PENSION PLANS

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the respective defined contribution plan (Public Employees Pension Plan) and defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to match contributions made by the employees for current services. During the year, the Corporation contributed $1,849 thousand (2000 - $1,707 thousand) on behalf of employees for current services.

17. SASKATCHEWAN RATE REVIEW PANEL

During 2000, The Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes consider the interests of the consumer, the Corporation and the public. SaskEnergy applied for both a commodity rate increase and decrease in 2001.

18. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation. The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY INCORPORATED

HOLDINGS DIVISION

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte & Touche

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Deloitte & Touche

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Holdings Division of SaskEnergy Incorporated as at December 31, 2001 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles except that the investments in the Distribution Division and the subsidiary companies have not been consolidated as explained in note 3 to the financial statements.

The Holdings Division is a component of SaskEnergy Incorporated and has no separate legal status. Transactions with other divisions and affiliates of SaskEnergy Incorporated are described in note 3.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

Deloitte
Touche
Tohmatsu

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(thousands)

	Note	2001	2000
ASSETS			
CURRENT ASSETS			
Cash		$ 64,605	$ 934
Intercompany interest receivable		10,117	19,920
Dividends receivable		43,673	6,724
		118,395	27,578
INVESTMENTS	4	842,341	782,404
DEFERRED FINANCING CHARGES		8,872	1,808
		$969,608	$811,790
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Short-term debt		$218,192	$ -
Interest payable		13,344	20,439
Dividend payable		-	7,410
Long-term debt due within one year		-	50,000
		231,536	77,849
LONG-TERM DEBT	5	618,756	662,677
TOTAL LIABILITIES		850,292	740,526
PROVINCE OF SASKATCHEWAN'S EQUITY			
Equity advances	6	71,531	71,531
Retained earnings (deficit)		47,785	(267)
		119,316	71,264
		$969,608	$811,790

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

Deloitte & Touche

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	2001	2000
REVENUE		
Interest	$ 52,661	$ 72,204
Dividends	53,132	24,584
	105,793	96,788
EXPENSES		
Interest	57,741	72,162
Net earnings	48,052	24,626
Deficit, beginning of year	(267)	(493)
Dividend	-	(24,400)
Retained earnings (deficit), end of year	$ 47,785	$ (267)

(See accompanying notes)

Deloitte & Touche

SASKENERGY INCORPORATED - HOLDINGS DIVISION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(thousands)

	Note	2001	2000
OPERATING ACTIVITIES			
Net earnings		$ 48,052	$ 24,626
Add item not requiring an outlay of cash Amortization of deferred financing costs		921	299
		48,973	24,925
Net change in non-cash working capital related to operations	7	(34,241)	(3,399)
Cash provided by operating activities		14,732	21,526
INVESTING ACTIVITIES			
Increase in investments		(59,937)	(19,916)
Cash used in investing activities		(59,937)	(19,916)
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt		218,192	(38,800)
Increase in long-term debt		140,000	33,971
Decrease in long-term debt		(233,921)	(8,310)
(Increase) decrease in financing costs		(7,985)	37
Dividend paid		(7,410)	(24,464)
Cash provided by (used in) financing activities		108,876	(37,566)
INCREASE (DECREASE) IN CASH during year		63,671	(35,956)
CASH POSITION, beginning of year		934	36,890
CASH POSITION, end of year		$ 64,605	$ 934

(See accompanying notes)

Deloitte & Touche

SASKENERGY INCORPORATED - HOLDINGS DIVISION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of **The SaskEnergy Act**.

By virtue of **The Crown Corporations Act, 1993**, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly-owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted below, and applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses.

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Distributions from this division are recognized in income as dividends when receivable.

b. Investments in wholly-owned subsidiaries

Investments in wholly-owned subsidiaries are accounted for on the cost method. Dividends from these share investments are recognized as income when receivable.

c. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt in 2001. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. BASIS OF PRESENTATION

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost.

These financial statements are prepared primarily for management purposes. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

4. INVESTMENTS

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division (thousands).

		2001	2000
a.	Loans receivable *	$609,765	$630,954
b.	Equity investments		
	Distribution Division**	214,910	139,010
	SaskEnergy International Incorporated	12,603	7,377
	TransGas Limited	4,001	4,001
	Bayhurst Gas Limited	1,061	1,061
	Swan Valley Gas Corporation	1	1
	Many Islands Pipe Lines (Canada) Limited ***	-	-
		232,576	151,450
	Total investments	$842,341	$782,404

All companies are wholly-owned subsidiaries of the Holdings Division

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt.

** During 2001, the Distribution Division transferred debt of $75,900 thousand to the Holdings Division and the Holdings Division increased its equity advances to the Distribution Division by an equal amount. These transactions were recorded at carrying value.

***The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is $101 (2000 - $101).

5. LONG-TERM DEBT

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

Years to Maturity	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Average Fixed Interest Rate (per cent)
1 - 5	$ 198,249	8.8	$404,586	11.1
6 - 10	241,967	7.5	228,564	8.1
16 - 30	193,971	7.3	133,971	7.7
	634,187		767,121	
Less sinking fund equity	(15,431)		(54,444)	
	618,756		712,677	
Less due within one year	-		(50,000)	
	$ 618,756		$662,677	

Cash interest paid during 2001 on long-term debt was $60,166 thousand (2000 - $72,453 thousand)

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by the Province of Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.19 per cent for 2001 (6.79 per cent 2000).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2002	2003	2004	2005	2006
Principal	$ -	$ -	$ 30,457	$101,195	$ 66,597
Sinking fund instalments	4,040	4,040	4,040	4,040	3,290
Total	$ 4,040	$ 4,040	$ 34,497	$105,235	$ 69,887

6. EQUITY ADVANCES

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

7. CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital related to operations was as follows:

	2001	2000
	(thousands)	
Intercompany accounts receivable	$ 9,803	$ (1,357)
Dividends receivable	(36,949)	(3,027)
Interest payable	(7,095)	985
	$ (34,241)	$ (3,399)

8. RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from operating transactions conducted with subsidiary corporations, the parent corporation, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

9. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term loans receivable	$ 634,187	$716,970	$669,793	$743,933
Sinking fund equity payable	15,338	15,293	36,662	37,981
Long-term debt	634,187	716,970	767,121	842,815
Sinking fund equity receivable	15,431	15,386	56,444	56,406
Forward start interest rate swaps	-	-	-	(8,200)

The Holdings Division entered into a number of forward start interest rate swaps to hedge its exposure to interest rate repricing on debt maturing between 2001 and 2003. The Holdings Division terminated these forward start interest rate swaps during the year.

The fair values of the above instruments were based on the following:

i. Long-term loans receivable The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

ii. Long-term debt The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

iii. Sinking fund equity payable The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at December 31, 2001.

iv. Sinking fund equity receivable Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at December 31, 2001.

v. Forward start interest rate swaps Closing quotations from the counterparty as to the amount to settle the contract on December 31, 2000.

The carrying values of other financial instruments (intercompany accounts receivable, accounts payable and cash) approximates fair value.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 4. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2001.

10. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2001 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

TRANSGAS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ 39,328	$ 51,349
Accounts receivable		10,401	11,174
Intercompany accounts receivable		7,172	5,943
Inventories of supplies		424	342
		57,325	68,808
CAPITAL ASSETS	3	533,962	539,862
NATURAL GAS IN STORAGE	4	30,577	32,235
DEFERRED CHARGES	5	5,889	2,446
		$627,753	$643,351
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Dividend payable		$ 40,633	$ 5,633
Accounts payable		11,987	10,522
Intercompany accounts payable		12,947	12,268
Long-term debt due within one year	7	-	28,646
		65,567	57,069
CUSTOMER CAPITAL CONTRIBUTIONS	6	29,578	29,722
LONG-TERM DEBT	7	340,415	366,270
TOTAL LIABILITIES		435,560	453,061
SHAREHOLDER'S EQUITY			
Share capital	8	4,001	4,001
Retained earnings		188,192	186,289
		192,193	190,290
		$627,753	$643,351
COMMITMENTS	9		

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

Deloitte & Touche

TRANSGAS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
REVENUE			
Transportation and storage		$ 125,995	$ 133,401
Net revenue from natural gas sales	4	34,933	15,410
Revenue collected for municipalities	10	5,816	4,806
		166,744	153,617
EXPENSES			
Operating and maintenance		49,779	45,686
Interest	7	29,632	39,228
Amortization of capital assets		24,564	22,855
Payments to municipalities	10	5,816	4,806
Saskatchewan taxes and royalties	11	7,175	7,219
Total expenses		116,966	119,794
Net earnings		49,778	33,823
Retained earnings, beginning of year		186,289	171,071
Dividend		(47,875)	(18,605)
Retained earnings, end of year		$ 188,192	$ 186,289

(See accompanying notes)

Deloitte & Touche

TRANSGAS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 49,778	$ 33,823
Add (deduct) items not requiring an outlay of cash			
Amortization of capital assets		24,564	22,855
Amortization of deferred charges		661	315
Amortization of customer capital contributions		(868)	(798)
		74,135	56,195
Net change in non-cash working capital related to operations	12	1,606	1,124
Cash provided by operating activities		75,741	57,319
INVESTING ACTIVITIES			
Additions to capital assets		(18,664)	(14,201)
Increase in deferred charges		(4,104)	(1,815)
Decrease in natural gas in storage		1,658	6,546
Customer capital contributions received		724	2,817
Cash used in investing activities		(20,386)	(6,653)
FINANCING ACTIVITIES			
Repayment of long-term debt		(134,501)	(4,907)
Proceeds from long-term debt		80,000	-
Dividend paid		(12,875)	(13,909)
Cash used in financing activities		(67,376)	(18,816)
INCREASE (DECREASE) IN CASH during year		(12,021)	31,850
CASH POSITION, beginning of year		51,349	19,499
CASH POSITION, end of year		$ 39,328	$ 51,349

(See accompanying notes)

Deloitte & Touche

TRANSGAS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

TransGas Limited was incorporated on March 30, 1988 under the **Saskatchewan Business Corporations Act**. TransGas Limited is a wholly-owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

TransGas Limited, as a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

TransGas Limited operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of general supplies used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage

Natural gas in storage is stated at cost.

c. Capital assets

Capital assets are recorded at cost and include all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.0

d. Future employee benefits

The cost of future benefits earned by employees is actuarily determined using the projected benefit method and management's best estimates. Past service costs are included in deferred charges and amortized on a straight-line basis over the average remaining service period of active employees.

e. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt in 2001. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

f. Customer capital contributions

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

g. Revenue recognition

Revenue is recognized when transportation, transportation related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue.

3. CAPITAL ASSETS

	2001			2000		
			(thousands)			
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 530,457	$127,457	$ 403,000	$ 522,507	$112,708	$409,799
Gathering, treatment and compression	153,396	48,738	104,658	148,586	42,547	106,039
Vehicles, equipment and other	45,313	22,719	22,594	41,123	19,483	21,640
Construction in progress	3,710	-	3,710	2,384	-	2,384
	$ 732,876	$198,914	$ 533,962	$ 714,600	$174,738	$539,862

The composite rate of amortization was 3.4 per cent during 2001 (3.2 per cent during 2000).

4. NATURAL GAS IN STORAGE

a. Natural gas in storage classified as a non-current asset is located within the Corporation's various storage facilities and is required for the ongoing operations of the storage facilities.

b. The Corporation has natural gas reserves that are fully amortized. A portion of these reserves were sold in 2001 and 2000.

c. Net revenue from natural gas sales consists of the following:

	2001	2000
	(thousands)	
Gross gas sales	$ 37,608	$ 21,926
Cost of natural gas sold	2,675	6,516
Net revenue from natural gas sales	$ 34,933	$ 15,410

5. DEFERRED CHARGES

Deferred charges include the following:

	2001	2000
	(thousands)	
Deferred financing costs	$ 4,437	$ 812
Unamortized past service costs	1,452	1,634
	$ 5,889	$ 2,446

6. CUSTOMER CAPITAL CONTRIBUTIONS

Contributions are received from customers to aid in construction of customer specific facilities in accordance with established business policies.

	2001	2000
	(thousands)	
Balance, beginning of year	$ 29,722	$ 27,703
Contributions received	724	2,817
Contributions amortized	(868)	(798)
Balance, end of year	$ 29,578	$ 29,722

Included in customer capital contributions is an amount of $3,198 thousand (2000 - $3,296 thousand) received from SEI for customer capital contributions in aid of construction of certain transmission facilities.

7. LONG-TERM DEBT

Years to Maturity	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	$131,289	8.9	$263,826	10.7
6 - 10	141,283	7.5	85,115	9.4
25-30	75,000	8.8	75,000	8.8
	347,572		423,941	
Less sinking fund equity	(11,973)		(33,841)	
Notes payable	335,599		390,100	
Less due within one year	-		(28,646)	
Total notes payable	335,599		361,454	
Other debt	4,816	13.5	4,816	13.5
Long-term debt	$340,415		$366,270	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SEI, TransGas Limited is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as sinking fund. These sinking funds are held by SEI.

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2002	2003	2004	2005	2006
Principal	$ -	$ -	$ 17,449	$ 90,008	$ 23,832
Sinking fund instalments	2,300	2,300	2,300	2,300	1,550
Total	$ 2,300	$ 2,300	$ 19,749	$ 92,308	$ 25,382

d. Interest expense

Interest expense was as follows:

	2001	2000
	(thousands)	
Interest on notes payable to parent	$ 32,051	$ 42,758
Interest on other debt	650	650
Interest on bank indebtedness	418	129
Sinking fund earnings	(2,048)	(2,130)
Interest income on short-term investments	(1,374)	(2,072)
Interest capitalized	(65)	(107)
	$ 29,632	$ 39,228

Cash interest paid during the year on notes payable to parent was $36,114 thousand (2000 - $42,758 thousand).

8. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty shares (2000 - thirty) are issued and outstanding.

9. COMMITMENTS

a. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2002	2003	2004	2005	2006	Thereafter	Total
$362	$371	$380	$389	$399	$1,918	$3,819

b. TransGas Limited is planning to sell natural gas from non-operational storage facilities. The Corporation has entered into forward sales agreements over a two-year period totaling $25,520 thousand.

10. REVENUE COLLECTED FOR AND PAID TO MUNCIPALITIES

In accordance with regulations under **The SaskEnergy Act**, TransGas is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities. In 2001, revenue collected and paid to municipalities was $5,816 thousand (2000 - $4,806 thousand).

11. SASKATCHEWAN TAXES AND ROYALTIES

Saskatchewan taxes and royalty payments include the following:

	2001	2000
	(thousands)	
Royalties	$ 4,700	$ 4,700
Corporate capital tax	2,102	2,173
Mitigation payments and property taxes	373	346
	$ 7,175	$ 7,219

The above amounts do not include Saskatchewan Education and Health Tax payments.

12. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Accounts payable	$ 1,465	$ (384)
Accounts receivable	773	459
Intercompany accounts payable	679	265
Intercompany accounts receivable	(1,229)	742
Inventories of supplies	(82)	42
	$ 1,606	$ 1,124

13. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$352,388	$415,514	$428,757	$489,842
Sinking fund equity	11,973	11,938	33,841	35,058
Natural Gas Price Swaps	-	2,863	-	(14,814)

The fair values of the above instruments were based on the following:

i. Long-term debt The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2001.

iii. Natural Gas Price Swaps - The relevant index price in effect on December 31, 2001.

The carrying values of other financial instruments (cash, accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 14), the Corporation has approximately 80 customers. In 2001, credit losses were less than 0.1 percent of total revenue.

14. RELATED PARTY TRANSACTIONS

a. Transactions with SEI and its other subsidiary corporations were as follows:

	2001	2000
	(thousands)	
Transportation and storage revenue	$ 58,358	$ 62,321
Net revenue from natural gas sales	$ 37,489	$ 21,845
Operating and maintenance expenses	$ 8,531	$ 9,002
Interest expense	$ 30,482	$ 40,762

These items have been recorded at their exchange amounts.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2001	2000
	(thousands)	
Accounts receivable	$ 890	$ 1,104
Accounts payable	372	380
Revenue	15,361	17,215
Operating expenses	9,053	8,816
Customer capital contributions	2,002	2,025

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

15. PENSION PLANS

Substantially all employees of the corporation are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the defined contribution plan (Public Employees Pension Plan) and the defined benefit pension plan (Power Corporation Superannuation Plan), the Corporation's obligations are limited to making regular payments to the plans to approximately match contributions made by the employees for current services. During the year, the corporation contributed $676 thousand (2000 - $627 thousand) on behalf of employees for current services.

16. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the current year's presentation. The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte & Touche

Deloitte & Touche LLP
900-2103 11th Ave
Regina SK S4P 3Z8

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Deloitte & Touche

Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2001 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

MANY ISLANDS PIPE LINES (CANADA) LIMITED

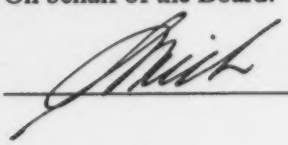
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

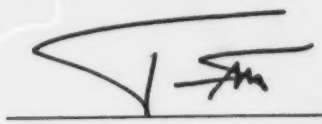
	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 275	$ 149
CAPITAL ASSETS	3	18,590	18,065
		$ 18,865	$ 18,214
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 631	$ 3,962
Intercompany accounts payable		724	713
Dividend payable		131	229
Accounts payable		124	508
Notes payable due within one year		-	869
		1,610	6,281
NOTES PAYABLE TO PARENT	4	11,807	6,687
TOTAL LIABILITIES		13,417	12,968
SHAREHOLDER'S EQUITY			
Share capital	5	-	-
Retained earnings		5,448	5,246
		5,448	5,246
		$ 18,865	$ 18,214

(See accompanying notes)

On behalf of the Board:



_____, Director



_____, Director

Deloitte & Touche

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
REVENUE			
Transportation		$ 3,451	$ 4,124
Other		151	-
		3,602	4,124
EXPENSES			
Operating and maintenance		1,191	1,026
Interest	4	763	938
Amortization of capital assets		605	537
Saskatchewan taxes	6	593	492
Total expenses		3,152	2,993
Net earnings		450	1,131
Retained earnings, beginning of year		5,246	4,776
Dividend		(248)	(661)
Retained earnings, end of year		$ 5,448	$ 5,246

(See accompanying notes)

Deloitte & Touche

MANY ISLANDS PIPE LINES (CANADA) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 450	$ 1,131
Add items not requiring an outlay of cash Amortization of capital assets		605	537
		1,055	1,668
Net change in non-cash working capital related to operations	7	(499)	726
Cash provided by operating activities		556	2,394
INVESTING ACTIVITIES			
Additions to capital assets		(1,130)	(4,336)
FINANCING ACTIVITIES			
Dividend paid		(346)	(924)
Proceeds from notes payable to parent		8,242	-
Repayment of notes payable to parent		(3,991)	(88)
Cash provided by (used in) financing activities		3,905	(1,012)
DECREASE (INCREASE) IN BANK INDEBTEDNESS during year		3,331	(2,954)
BANK INDEBTEDNESS, beginning of year		(3,962)	(1,008)
BANK INDEBTEDNESS, end of year		$ (631)	$ (3,962)

(See accompanying notes)

Deloitte & Touche

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

Many Islands Pipe Lines (Canada) Limited (MIPL) was incorporated on July 2, 1972 under the **Canada Business Corporations Act**. MIPL is a wholly-owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation.

As the Corporation is a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

MIPL owns and/or operates fourteen natural gas transmission pipelines: eleven interconnect Alberta to Saskatchewan pipelines, two interconnect United States and Saskatchewan pipelines, and one interconnects Manitoba and Saskatchewan pipelines. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Capital assets

Capital assets are stated at cost and include all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the asset disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent) transmission 2.6, compression 3.5, treatment 2.5, and other from 2.5 to 15.0.

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

3. CAPITAL ASSETS

	2001			2000		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	$ 21,813	$ 5,023	$ 16,790	$21,466	$ 4,461	$ 17,005
Compression	1,220	580	640	1,220	538	682
Treatment	14	5	9	14	4	10
Construction in progress	1,083	-	1,083	356	-	356
Other	529	461	68	473	461	12
	$ 24,659	$ 6,069	$ 18,590	$23,529	$ 5,464	$ 18,065

The composite rate of amortization was 2.6 per cent during 2001 (2.5 per cent during 2000).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy Incorporated acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, MIPL purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

d. Pursuant to a NEB order dated September 28, 2000, the Corporation constructed a pipeline at an original cost of $4,023 thousand. The pipeline commenced service December 3, 2000.

4. NOTES PAYABLE TO PARENT

Years to Maturity	2001 Principal Outstanding (thousands)	2001 Average Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Average Fixed Interest Rate (per cent)
1 - 5	$ 1,707	10.8	$ 5,726	12.0
6 - 10	1,858	9.3	2,580	9.4
16-30	8,000	6.4	-	-
	11,565		8,306	
Less sinking fund equity	-		(750)	
Total notes payable to parent	11,565		7,556	
Unamortized premium	242		-	
Less due within one year	-		(869)	
Notes payable to parent	$ 11,807		$ 6,687	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy Incorporated, Many Islands Pipe Lines (Canada) Limited is required to (on an annual basis) invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are held by SaskEnergy Incorporated.

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2002	2003	2004	2005	2006
Principal	$ -	$ -	$ 529	$ 455	$ 723
Sinking fund instalments	80	80	80	80	80
Total	$ 80	$ 80	$ 609	$ 535	$ 803

d. Interest expense

Interest expense was as follows:

	2001	2000
	(thousands)	
Interest on notes payable to parent	$ 506	$ 927
Interest on bank indebtedness	318	67
Sinking fund earnings	(45)	(49)
Interest capitalized	(16)	(8)
Amortization of deferred charges	-	1
	$ 763	$ 938

e. Cash interest paid during the year on notes payable to parent was $515 thousand.

5. SHARE CAPITAL

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2000 - 101) are issued and outstanding. The shares were issued for nominal consideration of one hundred and one dollars.

6. SASKATCHEWAN TAXES

Saskatchewan taxes include the following:

	2001	2000
	(thousands)	
Property taxes	$ 560	$ 465
Corporate capital tax	33	27
	$ 593	$ 492

The above amounts do not include Saskatchewan Education and Health Tax payments.

7. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Accounts receivable	$ (126)	$ 92
Accounts payable	(384)	312
Intercompany accounts payable	11	322
	$ (499)	$ 726

8. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments are listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to parent	$11,807	$12,521	$ 8,306	$ 9,100
Sinking fund equity	$ -	$ -	$ 750	$ 777

The fair values of the above instruments were based on the following:

i. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2001.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 10), the Corporation has 8 customers from which it earns approximately one-half of its revenue. The Corporation had a maximum credit exposure to any individual customer of approximately $115 thousand. There were no credit losses in 2001.

9. NATIONAL ENERGY BOARD REGULATION

All revenues and expenses of the Corporation are related to activities subject to regulation by the National Energy Board.

10. RELATED PARTY TRANSACTIONS

a. Transactions with SEI and affiliated corporations were as follows:

	2001	2000
	(thousands)	
Revenue	$ 1,726	$ 1,928
Operating and maintenance expenses	$ 1,092	$ 920
Interest expense	$ 779	$ 946

These items have been recorded at their exchange amounts.

b. By virtue of Many Islands Pipe Lines (Canada) Limited being a subsidiary of SEI, it is related to various Saskatchewan Crown corporations, departments, agencies, boards and commissions subject to joint control and significant influence by the Government of Saskatchewan.

Routine operating transactions with these related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end were as follows:

	2001	2000
	(thousands)	
Operating expense	$ 37	$ 36

In addition, the Corporation pays Saskatchewan Education and Health Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

11. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

Deloitte & Touche LLP
900-2103 11th Ave
Regina SK S4P 3Z8

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Deloitte
& Touche

Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2001 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

Deloitte
Touche
Tohmatsu

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable		$ 24	$ 169
LONG-TERM INVESTMENT	3	12,832	7,464
		$ 12,856	$ 7,633
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 3,319	$ 2,510
Intercompany accounts payable		74	169
Accounts payable		108	49
TOTAL LIABILITIES		3,501	2,728
SHAREHOLDER'S EQUITY			
Share capital	4	12,603	7,377
Deficit		(3,248)	(2,472)
		9,355	4,905
		$ 12,856	$ 7,633

(See accompanying notes)

On behalf of the Board:

_____, Director _____, Director

Deloitte & Touche

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
REVENUE			
Consulting services		$ 166	$ 209
EXPENSES			
Operating		819	848
Interest	5	123	117
		942	965
Loss		(776)	(756)
Deficit, beginning of year		(2,472)	(1,716)
Deficit, end of year		$ (3,248)	$ (2,472)

(See accompanying notes)

Deloitte & Touche

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Loss		$ (776)	$ (756)
Net change in non-cash working capital related to operations	6	109	(9)
Cash used in operating activities		(667)	(765)
FINANCING ACTIVITIES			
Increase in bank indebtedness		809	750
Increase in share capital		5,226	2,452
Cash provided by financing activities		6,035	3,202
INVESTING ACTIVITIES			
Increase in investments		(5,368)	(2,437)
INCREASE IN CASH, during year		-	-
CASH, beginning of year		-	-
CASH, end of year		$ -	$ -

(See accompanying notes)

Deloitte & Touche

SASKENERGY INTERNATIONAL INCORPORATED

NOTES TO CONSOLDIATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

SaskEnergy International Incorporated (SEII) was incorporated on February 17, 1981 under the **Canada Business Corporations Act**. SEII is a wholly-owned subsidiary of SaskEnergy Incorporated.

SaskEnergy Incorporated is a Saskatchewan Crown corporation, and therefore SEII is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. In addition, the accounts also include the Corporation's 100 per cent interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership.

b. Long-term investment

The Corporation accounts for its investment using the equity method.

3. LONG-TERM INVESTMENT

a. Long-term investment

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity ownership in Gas Sur S.A. to 30 per cent.

In 2000, the 15 per cent equity interest in Gas Sur S.A was recorded by the cost basis of accounting. On December 14, 2001, the equity ownership in Gas Sur S.A. was increased to 30 per cent and as a result, the investment was accounted for on the equity basis of accounting from that date.

The cash invested in Gas Sur S.A. shares is $12,602 thousand. The Corporation's share of Gas Sur S.A.'s net income and any foreign currency translation adjustment between December 14, 2001 and December 31, 2001 are not material and have not been recorded in these financial statements.

The cost of the investment exceeded the Corporation's share of the underlying net book value of Gas Sur S.A. by approximately $5.3 million and is not being amortized.

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholder Agreement. The guarantee is expressly limited to $5,000 thousand US.

b. Integrated Gas Services of Mexico, S. de R.L. de C.V. (Igasamex)

Order-in-Council 879/2001 dated December 4, 2001 authorizes the Corporation to purchase an equity interest in Igasamex, a Mexican natural gas midstream company. The Order-in-Council limits the investment to a maximum of $12,000 thousand USD. As at December 31, 2001, the Corporation had not completed negotiations for the purchase of the equity interest.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2001	2000
		(thousands)	
Opening Balance	737,732.7	$ 7,377	$ 4,925
Issued during the year for cash	522,550.0	5,226	2,452
	1,260,282.7	$ 12,603	$ 7,377

5. INTEREST

During the year, the Corporation made cash payments of $127 thousand (2000 - $112 thousand).

6. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Intercompany accounts payable	$ (95)	$ 80
Accounts payable	59	32
Accounts receivable	145	(121)
	$ 109	$ (9)

7. FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable) approximate fair value.

8. RELATED PARTY TRANSACTIONS

Transactions with SaskEnergy Incorporated and its affiliates were as follows:

	2001	2000
	(thousands)	
Operating expenses	$ 104	$ 104

9. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte & Touche

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Deloitte & Touche

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2001 and the consolidated statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CASH		$ 2	$ 29
LONG-TERM INVESTMENT	3	12,602	7,347
		$ 12,604	$ 7,376
LIABILITIES AND SHAREHOLDER'S EQUITY			
INTERCOMPANY ACCOUNTS PAYABLE		$ 2	$ -
MINORITY INTEREST	3	12	7
SHAREHOLDER'S EQUITY			
Share capital	4	12,590	7,369
		$ 12,604	$ 7,376

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2001	2000
	(thousands)	
FINANCING ACTIVITIES		
Proceeds from share issues	$ 5,221	$ 2,450
Minority interest	5	2
Increase in intercompany accounts payable	2	-
Cash provided by financing activities	5,228	2,452
INVESTING ACTIVITIES		
Increase in long-term investment	(5,255)	(2,437)
INCREASE (DECREASE) IN CASH during year	(27)	15
CASH POSITION, beginning of year	29	14
CASH POSITION, end of year	$ 2	$ 29

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under the **Canada Business Corporations Act**. The Corporation is a wholly-owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly-owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings I Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses.

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest).

b. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

3. LONG-TERM INVESTMENT

a. Long-term investment

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity ownership in Gas Sur S.A. to 30 per cent.

In 2000, the 15 per cent equity interest in Gas Sur S.A was recorded by the cost basis of accounting. On December 14, 2001, the equity ownership in Gas Sur S.A. was increased to 30 per cent and as a result, the investment was accounted for on the equity basis of accounting from that date.

The total amount of the investment is $12,602 thousand. The Corporation's share of Gas Sur S.A.'s net income and any foreign currency translation adjustment between December 14, 2001 and December 31, 2001 are not material and have not been recorded in these financial statements.

The cost of the investment exceeded the Corporation's share of the underlying net book value of Gas Sur S.A. by approximately $5.3 million and is not being amortized.

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholder Agreement. The guarantee is expressly limited to $5,000 thousand US.

b. Minority interest

The corporation owns a 99.9 per cent interest in SaskEnergy Chilean Holdings Limitada. The minority interest of 0.1 per cent is owned by an affiliated company, SaskEnergy Chilean Holdings II Ltd.

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2001	2000
		(thousands)	
Opening balance	736,896.0	$ 7,369	$ 4,919
Issued during the year for cash	522,027.5	5,221	2,450
Closing balance	1,258,923.5	$ 12,590	$ 7,369

5. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte & Touche

Deloitte & Touche LLP
900-2103 11th Ave
Regina SK S4P 3Z8

Tel: (306) 525 1600
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Deloitte
& Touche

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2001 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SASKENERGY CHILEAN HOLDINGS II LTD.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
LONG-TERM INVESTMENT	3	$ 12	$ 7
SHAREHOLDER'S EQUITY			
SHARE CAPITAL	4	$ 12	$ 7

(See accompanying notes)

On behalf of the Board:

_____, Director

_____, Director

Deloitte & Touche

SASKENERGY CHILEAN HOLDINGS II LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2001	2000
	(thousands)	
FINANCING ACTIVITIES		
Proceeds from share issues	$ 5	$ 2
INVESTING ACTIVITIES		
Increase in long-term investment	(5)	(2)
	-	-
CASH POSITION, beginning of year	-	-
CASH POSITION, end of year	$ -	$ -

(See accompanying notes)

Deloitte

SASKENERGY CHILEAN HOLDINGS II LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under the **Canada Business Corporations Act**. The Corporation is a wholly-owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, and therefore SaskEnergy Chilean Holdings II Ltd. is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses.

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada (SCHL) by the cost method (0.1 per cent ownership interest).

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, SCHL purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, SCHL increased its equity ownership in Gas Sur S.A. to 30 per cent.

The Corporation holds a 0.1 per cent interest in SCHL with an affiliate holding the remaining interest. The investment in SCHL is $12.6 thousand.

Deloitte

4. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Share capital is as follows:

	Shares	2001	2000
		(thousands)	
Opening balance	738.7	$ 7	$ 5
Issued during the year for cash	522.5	5	2
Closing balance	1,261.2	$ 12	$ 7

5. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2001 and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2001 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
TERM DEPOSIT		$ -	$ 29
LONG-TERM INVESTMENT	3	12,602	7,347
		$ 12,602	$ 7,376
PARTNERSHIP EQUITY			
PARTNERSHIP EQUITY		$ 12,602	$ 7,376

(See accompanying notes)

On behalf of the Partners:

_____, Partner

_____, Partner

Deloitte & Touche

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF PARTNERSHIP EQUITY

FOR THE YEAR ENDED DECEMBER 31

	SaskEnergy Chilean Holdings I Ltd.	SaskEnergy Chilean Holdings II Ltd.	2001	2000
		(thousands)		
PARTNERSHIP EQUITY, beginning of year	$ 7,369	$ 7	$ 7,376	$ 4,924
CONTRIBUTIONS FROM PARTNERS	5,221	5	5,226	2,452
PARTNERSHIP EQUITY, end of year	$12,590	$ 12	$12,602	$ 7,376

(See accompanying notes)

Deloitte & Touche

SASKENERGY CHILEAN HOLDINGS LIMITADA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2001	2000
	(thousands)	
FINANCING ACTIVITIES		
Equity contributions from partners	$ 5,226	$ 2,452
INVESTING ACTIVITIES		
Increase in long-term investment	(5,255)	(2,437)
	(29)	15
CASH POSITION, beginning of year	29	14
CASH POSITION, end of year	$ -	$ 29

Cash position consists of a term deposit

(See accompanying notes)

Deloitte & Touche

SASKENERGY CHILEAN HOLDINGS LIMITADA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE LIMITED PARTNERSHIP

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated, which in turn is wholly owned by a Saskatchewan Crown corporation – SaskEnergy Incorporated.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year, the Corporation had no revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses.

Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

3. LONG-TERM INVESTMENT

Under authority of Order-in-Council 735/1998 dated December 9, 1998, the Corporation purchased a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company. On December 14, 2001, under authority of Order-in-Council 825/2001 dated November 13, 2001, the Corporation increased its equity ownership in Gas Sur S.A. to 30 per cent.

In 2000, the limited partnership held a 15 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company, and recorded this investment on the cost basis of accounting. On December 14, 2001, the SaskEnergy Chilean Holdings Limitada increased its equity ownership in Gas Sur S.A. to 30 per cent and as a result, began recording its investment on the equity basis of accounting from that date.

The total amount of the investment is $12,602 thousand. The SaskEnergy Chilean Holdings Limitada's share of Gas Sur S.A.'s net income and any foreign currency translation adjustment between December 14, 2001 and December 31, 2001 are not material and have not been recorded in these financial statements.

The cost of the investment exceeded SaskEnergy Chilean Holdings Limitada's underlying share of the net book value of Gas Sur S.A. by approximately $5.3 million and is not being amortized.

4. COMPAR... ...IGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

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Deloitte & Touche

Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2001 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

SWAN VALLEY GAS CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Cash		$ -	$ 561
Accounts receivable		825	2,276
Intercompany accounts receivable		101	-
Purchase gas variance account	3	-	8
		926	2,845
CAPITAL ASSETS	4	7,911	4,814
TOTAL ASSETS		$ 8,837	$ 7,659
LIABILITIES AND PROVINCE'S EQUITY			
CURRENT LIABILITIES			
Bank indebtedness		$ 974	$ -
Intercompany accounts payable		82	2,819
Accounts payable		37	245
Purchase gas variance account	3	6	-
		1,099	3,064
NOTE PAYABLE TO PARENT	5	2,046	-
CAPITAL CONTRIBUTIONS	6	5,855	4,564
TOTAL LIABILITIES		9,000	7,628
SHAREHOLDER'S EQUITY			
Share capital	7	1	1
Retained earnings (deficit)		(164)	30
		(163)	31
		$ 8,837	$ 7,659

On behalf of the Board:

Director

Director

Deloitte & Touche

SWAN VALLEY GAS CORPORATION

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
REVENUE			
Natural gas sales		$ 72	$ 1
Cost of gas sold		72	1
Natural gas sales margin		-	-
Delivery revenue		519	16
Amortization of capital contributions		93	-
Interest income		-	44
Net revenue		612	60
EXPENSES			
Transportation		327	10
Operating and maintenance		252	16
Amortization of capital assets	4	154	4
Interest	5	73	-
Total expenses		806	30
Net earnings (loss)		(194)	30
Retained earnings, beginning of year		30	-
Retained earnings (deficit), end of year		$ (164)	$ 30

(See accompanying notes)

Deloitte & Touche

SWAN VALLEY GAS CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Net earnings (loss)		$ (194)	$ 30
Add (deduct) items not requiring an outlay of cash			
Amortization of capital assets		154	4
Amortization of capital contributions		(93)	-
		(133)	34
Net change in non-cash working capital related to operations	8	(1,581)	780
Cash provided by (used in) operating activities		(1,714)	814
INVESTING ACTIVITIES			
Additions to capital assets		(3,251)	(4,818)
Increase in capital contributions		1,384	4,564
Cash used in investing activities		(1,867)	(254)
FINANCING ACTIVITIES			
Proceeds from note payable to parent	5	2,046	-
Share capital issued		-	1
Cash provided by financing activities		2,046	1
INCREASE (DECREASE) IN CASH during year		(1,535)	561
CASH POSITION, beginning of year		561	-
CASH POSITION, end of year		$ (974)	$ 561

Cash position consists of cash less bank indebtedness.

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

Swan Valley Gas Corporation (SVGC) was created on November 30, 1999 under **The Corporation Act of Manitoba**. The corporation was inactive until February 17, 2000 when it became a wholly-owned subsidiary of SaskEnergy Incorporated (SEI). SEI is a Saskatchewan Crown Corporation, and therefore SVGC is not subject to Federal or Provincial income taxes in Canada.

The affairs of SVGC are managed by its Board of Directors and the management of its parent, SEI.

During the year 2000, the Manitoba Public Utilities Board (MPUB) authorized and approved franchise agreements between the SVGC and individual municipalities for the rights of transmission and distribution of natural gas in the Swan Valley region of Manitoba.

SVGC commenced the sale and delivery of natural gas on December 21, 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Capital Assets

Capital assets are recorded at cost and include all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Main Lines	2.50
Pressure Regulation Stations	3.03
Service Lines and Meters	3.45
General Plant	5.00

b. Capital Contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service of life of the related asset.

c. Revenue Recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

d. Regulation

The business activities of SVGC are regulated by the MPUB.

The corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

e. Natural Gas Supply

SVGC contracts with SEI and its affiliated corporations for its natural gas supply, transportation and storage requirements. SVGC takes delivery of natural gas at the inlet to its facilities approximately one kilometer east of the Manitoba-Saskatchewan border.

3. PURCHASE GAS VARIANCE ACCOUNT

The cost of natural gas is recovered from customers based on commodity rates approved by the MPUB. Differences between the approved commodity rates and those costs of natural gas actually incurred are deferred for future disposition subject to approval by the MPUB.

4. CAPITAL ASSETS

	2001			2000		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	$ 6,258	$ 126	$ 6,132	$ 3,806	$ 4	$ 3,802
Service lines and meters	1,063	19	1,044	275	-	275
Stations	679	13	666	352	-	352
General plant	70	1	69	6	-	6
Construction in progress	-	-	-	379	-	379
	$ 8,070	$ 159	$ 7,911	$ 4,818	$ 4	$ 4,814

5. NOTE PAYABLE TO PARENT

Maturity Date	2001 Principal Outstanding (thousands)	2001 Fixed Interest Rate (per cent)	2000 Principal Outstanding (thousands)	2000 Fixed Interest Rate (per cent)
September 5, 2031	$ 2,000	6.40	$ -	-
Unamortized Premium	46		-	-
	$ 2,046		$ -	-

a. Sinking funds

Under conditions attached to the advance from the parent SEI, SVGC is required to pay annual installments into a sinking fund. The first annual installment is due September 3, 2002. These funds are held by SEI.

b. Sinking fund installments

Sinking fund installments are due in each of the next five years as follows:(thousands)

2002	2003	2004	2005	2006
$ 20	$ 20	$ 20	$ 20	$ 20

c. Interest expense

Interest expense was as follows:

	2001 (thousands)	2000 (thousands)
Interest on bank indebtedness	$ 89	$ 6
Interest on note payable to parent	7	-
Interest capitalized	(23)	(6)
	$ 73	$ -

Deloitte & Touche

6. CAPITAL CONTRIBUTIONS

Capital contributions have been committed from federal, provincial and municipal agencies to assist in the funding of the Swan Valley gasification project. In addition, customers are assessed a capital contribution for installation of natural gas service. Capital contributions were as follows:

	2001	2000
	(thousands)	
Opening Balance	$ 4,564	$ -
Contributions received		
Governments of Canada and Manitoba	1,066	1,524
Customers	318	491
Municipal governments	-	1,814
Prairie Farm Rehabilitation Administration	-	735
Contributions amortized	(93)	-
Balance end of year	$ 5,855	$ 4,564

7. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without nominal or par value. One hundred (100) shares (2000 – 100) are issued and outstanding.

8. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Accounts receivable	$ 1,350	$ (2,276)
Accounts payable	(2,945)	3,064
Purchase gas variance account	14	(8)
	$ (1,581)	$ 780

9. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments are listed below:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Note payable to parent	$ 2,046	$ 2,049	$ -	$ -

The fair value of the above financial instrument was based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts receivable, intercompany accounts payable and bank indebtedness) approximate fair value.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. During 2001, the Corporation had one non-related customer from which it earned approximately eighty percent of its revenue. There were no credit losses in 2001.

10. RELATED PARTY TRANSACTIONS

Transactions with SEI and its other subsidiary corporations were as follows (thousands):

	2001	2000
	(thousands)	
Transportation, operating and maintenance expenses	$ 326	$ 10
Interest expense (income)	69	-
Natural gas commodity purchases	27	16

11. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.

BAYHURST GAS LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2001

Deloitte
& Touche

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Deloitte
& Touche

Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2001 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Canada
February 4, 2002

BAYHURST GAS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

	Note	2001	2000
		(thousands)	
ASSETS			
CURRENT ASSETS			
Accounts receivable and accrued revenue		$ 565	$ 1,000
Intercompany receivable		3,380	-
		3,945	1,000
ROYALTY INTEREST		6,831	6,831
Less accumulated amortization		6,805	5,905
		26	926
		$ 3,971	$ 1,926
LIABILITIES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts payable		$ 1	$ 3
Dividend payable		2,909	862
TOTAL LIABILITIES		2,910	865
SHAREHOLDER'S EQUITY			
Share capital	3	1,061	1,061
Retained earnings		-	-
		1,061	1,061
		$ 3,971	$ 1,926

(See accompanying notes)

On behalf of the Board:

_____, Director _____, Director

Deloitte & Touche

BAYHURST GAS LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	2001	2000
	(thousands)	
REVENUE		
Royalties	$ 5,943	$ 4,039
EXPENSES		
Amortization of royalty interest	900	900
Operating and maintenance	34	23
Total expenses	934	923
Net earnings	5,009	3,116
Retained earnings, beginning of year	-	-
Dividend	(5,009)	(3,116)
Retained earnings, end of year	$ -	$ -

(See accompanying notes)

Deloitte & Touche

BAYHURST GAS LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	Note	2001	2000
		(thousands)	
OPERATING ACTIVITIES			
Net earnings		$ 5,009	$ 3,116
Add item not requiring an outlay of cash Amortization of royalty interest		900	900
		5,909	4,016
Net change in non-cash working capital related to operations	4	(2,947)	506
Cash provided by operating activities		2,962	4,522
FINANCING ACTIVITIES			
Dividend paid		(2,962)	(4,522)
Cash used in financing activities		(2,962)	(4,522)
CASH POSITION, beginning and end of year		$ -	$ -

(See accompanying notes)

Deloitte & Touche

BAYHURST GAS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

1. STATUS OF THE CORPORATION

Bayhurst Gas Limited was incorporated on March 30, 1988 under the **Saskatchewan Business Corporations Act**. The corporation is a wholly-owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

Bayhurst Gas Limited, as a wholly-owned subsidiary of a Saskatchewan provincial Crown corporation, is not subject to Federal or Provincial income taxes in Canada.

Bayhurst Gas Limited owns a gross overriding royalty interest in 488 natural gas properties in Saskatchewan and Alberta whereby the Corporation receives monthly payments in accordance with the terms and conditions of the royalty interest.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy Incorporated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

a. Revenue Recognition

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements.

Royalty revenue, accounts receivable and accrued revenue as recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such are based on Bayhurst's best information and judgment. Amounts could change by more than a material amount in the near term.

b. Royalty interest

The royalty interest is recorded at cost. Amortization expense is calculated on a unit-of-production basis.

3. SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2000 - 120 shares) are issued and outstanding.

4. NET CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
	(thousands)	
Accounts receivable	$ 435	$ (619)
Intercompany receivable	(3,380)	1,125
Accounts payable	(2)	-
	$ (2,947)	$ 506

5. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

The carrying values of financial instruments (accounts receivable and dividend payable) approximate fair value.

b. Credit risk

The Corporation receives monthly royalties on certain natural gas properties. The largest receipts (approximately 79 per cent) are from one non-related company. The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2001.

6. COMPARATIVE FIGURES

The financial statements as at December 31, 2000 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their audit report dated February 5, 2001.